



ARIZONA STATE SENATE
Fifty-Fifth Legislature, First Regular Session

FACT SHEET FOR S.B. 1142

SMI; employment; income tax credits

Purpose

Establishes the Credit for Employing Individuals with Serious Mental Illness, allowed against individual and corporate income tax liability for Taxable Year (TY) 2022 through TY 2024 and outlines requirements for the credit.

Background

Individual income tax is levied on Arizona residents' taxable income and uses a graduated rate structure, based on the taxpayer's income level. Corporate income tax is levied on corporations, based on the corporation's property, payroll and sales within Arizona. Statute authorizes certain tax credits, which provide a reduction of a taxpayer's individual or corporate income tax liability. A claimed tax credit reduces the taxpayer's amount of income that is taxed ([JLBC Tax Handbook, 2020](#)).

Seriously mentally ill (SMI) is a person who, as a result of a mental disorder, exhibits emotional or behavioral function that is so impaired as to interfere substantially with their capacity to remain in the community without supportive treatment or services of a long-term or indefinite duration ([A.R.S. § 36-550](#)).

If the creation of the Credit for Employing Individuals with Serious Mental Illness results in claims against income tax liability, there may be a fiscal impact to the state General Fund.

Provisions

1. Allows a credit against individual and corporate income tax, for TY 2022 through TY 2024, for a qualified taxpayer that employs at least one individual who is SMI.
2. Sets the credit amount at \$2 for each hour worked by an SMI employee during the calendar year, not to exceed \$20,000 per taxpayer.
3. Requires, to qualify for the credit:
 - a) the taxpayer to employ 100 employees or fewer;
 - b) each employee for which the credit is claimed to be SMI and reside in Arizona at the time the employee is hired; and
 - c) the employee for which the credit is claimed must not have been employed within six months before the date of hire.
4. Sets an aggregate total cap of \$5,000,000 for credits claimed by individuals and corporations.

5. Stipulates that the credit is in lieu of any wage expense deduction taken for state income tax purposes.
6. Allows the taxpayer, if the allowable credit exceeds the taxes otherwise due or if there are no taxes due, to carry the amount of the claim not used to offset the taxes forward for no more than five consecutive TYs' income tax liability.
7. Allows co-owners of a business to each claim only the pro rata share of the credit based on ownership interest and prohibits the total of the credits allowed to the co-owners from exceeding the amount that would have been allowed to a sole owner.
8. Adds, to the computation of Arizona adjusted gross income for individuals and Arizona taxable income for corporations, any wage expenses deducted pursuant to the Internal Revenue Code for which the credit is claimed.
9. Applies the credit to TYs beginning January 1, 2022 through December 31, 2024.
10. Distributes credits on a first-come, first-served basis.
11. Allows ADOR to adopt rules necessary to administer the credit.
12. Contains a purpose statement.
13. Becomes effective on the general effective date.

Prepared by Senate Research

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